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Message Text

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FOR: THE HONORABLE ARTHUR F. BURNS, CHAIRMAN
FEDERAL RESERVE BOARD, HOTEL INTERCONTINENTAL

THE FINAL ESTIMATE OF CORPORATE PROFITS BEFORE TAXES IN THE SECOND QUARTER OF 1973 WAS $128.9 BILLION, SEASONALLY ADJUSTED ANNUAL RATE, AND $71.6 BILLION AFTER TAXES. BOTH FIGURES ARE ABOUT $1 BILLION LOWER THAN THE PRELIMINARY ESTIMATES RELEASED A MONTH AGO. MOST OF THE REDUCTION IS ATTRIBUTED TO PROFITS ORIGINATING IN THE REST OF THE WORLD WHICH ARE NOW ESTIMATED TO BE UNCHANGED FROM THE FIRST QUARTER AT $7.7 BILLION.

NEW ORDERS FOR DURABLE GOODS DECLINED 1.6 PERCENT IN AUGUST FOLLOWING AN UNREVISED 0.7 PERCENT DROP IN JULY. EXCLUDING DEFENSE, NEW ORDERS FELL 3.3 PERCENT. NONDEFENSE CAPITAL GOODS ORDERS WERE OFF 5.0 PERCENT WHILE DEFENSE GOODS ORDERS WERE UP SHARPLY. SHIPMENTS OF DURABLE GOODS WERE DOWN 4.2 PERCENT AND BACKLOGS OF UNFILLED ORDERS ROSE 3.0 PERCENT IN AUGUST. LABOR COST PER UNIT OF OUTPUT IN MANUFACTURING ROSE 0.8 PERCENT IN AUGUST TO A HIGH OF 123.8. IN AUGUST LAST YEAR THE INDEX WAS 118.9, ABOUT UNCHANGED FROM AUGUST 1971. THE RATIO OF PRICE TO UNIT LABOR COST IN MANUFACTURING ROSE SUB-STANTIALLY IN AUGUST TO AN INDEX OF 108.4, COMPARED WITH AN INDEX OF 99.8 IN AUGUST 1972 AND 97.1 IN AUGUST 1971.

A SPECIAL REPORT BY THE MICHIGAN SURVEY RESEARCH CENTER FOR THE PERIOD JULY 22 TO AUGUST 22 INDICATED THAT CONSUMER PES-
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SIMISM INCREASED FURTHER THIS SUMMER, REFLECTING MAINLY

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DETERIORATION IN CONSUMER EXPECTATIONS ABOUT THEIR FINANCIAL SITUATIONS. IN CONTRAST, CONSUMER VIEWS THAT THIS WAS A GOOD TIME TO BUY DURABLE GOODS HELD UP WELL. NEVER IN THE RECORD OF THE SURVEY HAS THERE BEEN SUCH A DIVERGENCE BETWEEN CONSUMER CONFIDENCE AND CONSUMER ATTITUDES TOWARD BUYING. THE SENATE TODAY APPROVED HENRY KISSINGER AS SECRETARY OF STATE TO SUCCEED WILLIAM ROGERS.

PRESIDENT NIXON AND VICE PRESIDENT AGNEW HELD A LENGTHY PRIVATE MEETING YESTERDAY AFTERNOON AMID RUMORS THAT THE VICE PRESIDENT MIGHT BE CONSIDERING RESIGNING. A WHITE HOUSE SPOKESMAN SAID THEE WOULD BE NO REPORT OR DISCUSSION OF THE MEETING.

REVIEW COPIES OF GOVERNOR MAISEL'S BOOK HAVE BEEN DISTRIBUTED. A COMPLIMENTARY COPY WILL BE ON YOUR DESK UPON YOUR RETURN. TWO IMPORTANT CHANGES IN WHICH YOU WERE SPECIFICALLY INTERESTED HAVE BEEN MADE.

DOMESTIC FINANCIAL MARKETS CONTINUED TO DISPLAY A VERY FIRM TONE TODAY, APPARENTLY REFLECTING AN EXPECTATION THAT MONETARY POLICY MAY EASE. THE TREASURY BILL MARKET WAS ADDITIONALLY INFLUENCED BY VERY LOW DEALER POSITIONS. THE 3-MONTH BILL FELL AN ATYPICAL 59 BASIS POINTS TO 7.69 PERCENT; OTHER BILL DECLINES WERE MUCH LESS SIZABLE. FEDERAL FUNDS TRADED MOSTLY AT 10-3/4 PERCENT.

AFTER OPENING LOWER, STOCK PRICES RESUMED THEIR ADVANCE WITH THE DOW JONES INDUSTRIALS RISING OVER SEVEN POINTS TO A LEVEL OF ABOUT 928. OVER 23 MILLION SHARES WERE TRADED COMPARED WITH 26 MILLION YESTERDAY. FURTHER INFORMATION ON THE MONETARY AGGREGATES INDICATES STRONGER THAN ANTICIPATED GROWTH IN LARGE-DENOMINATION CD'S. GIVEN THE RELATIVELY WEAK PERFORMANCE OF OTHER TIME DEPOSITS, RPD'S ARE PROJECTED TO GROW NEAR THE UPPER END OF THE SEPTEMBER-OCTOBER RANGE. M-1 IS GROWING IN LINE WITH EARLIER INDICATIONS.

FOREIGN EXCHANGE MARKET ACTIVITY WAS AGAIN VERY HECTIC TODAY. INTERVENTION BY EUROPEAN CENTRAL BANKS CONTINUED VERY HEAVY, THOUGH REDUCED FROM YESTERDAY AND TENDING TO DECLINE AS THE DAY WORE ON. THE BANK OF FRANCE ACTED TO RESTRICT FRENCH BANKS' CONFIDENTIAL

FRANC LOANS TO NON-RESIDENTS, AND THE NATIONAL BANK OF BELGIUM INSTRUCTED BELGIAN BANKS TO REDUCE THEIR NET FOREIGN LIABILITY POSITION BY 25 PERCENT. THESE MEASURES, IN CONJUNCTION WITH PREVIOUSLY ANNOUNCED MEASURES BY BOTH CENTRAL BANKS AND THE FACT THAT EUROPEAN CENTRAL BANKS CONTINUED TO INTERVENE IN HEAVY AMOUNTS SEEMED TO CALM THE MARKETS SOMEWHAT. TOTAL INTER-VENTION IN SUPPORT OF THE FRENCH FRANC AMOUNTED TO PERHAPS $350 MILLION EQUIVALENT, WITH THE GREAT BULK OF THIS AGAIN DONE

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AGAINST MARKS. VIRTUALLY ALL OF THE BAND CURRENCIS WERE USED IN INTERVENTION OPERATIONS TODAY WITH MARKS, BELGIAN FRANCS AND DANISH KRONER BEING SOLD AGAINST FRENCH FRANCS, NORWEGIAN KRONER, SWEDISH KRONOR AND DUTCH GUILDERS IN VARIOUS COMBINATIONS.

THE GERMAN FEDERAL BANK ALSO INTERVENED IN DOLLARS AND THE SYSTEM PURCHASED DOLLARS AGAINST MARKS EARLY IN THE DAY. BY MID-AFTERNOON IN NEW YORK THE DOLLAR WAS UP 3/4 TO 1-1/4 PER CENT FROM YESTERDAY AGAINST CONTINENTAL CURRENCIES. THE DOLLAR SHOWED NO SIGNIFICANT CHANGE AGAINST THE YEN, STERLING, AND THE CANADIAN DOLLAR. RUSH

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